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When the Recession Came to Texas

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For years, Texas' economy seemed to be insulated from the economic uncertainties faced by the rest of the country. But now, reeling from deficits, the strains of immigration, and a troubled housing industry, Texas is confronted with the realities of trying to survive and thrive in the midst of recession. May still believe Texas plays by a different set of economic rules. Contrary to this opinion, the Texas economy is neither inherently better nor more resilient than any other part of the country. In the global economy, Texas has no particular advantage over any other state. The year 2011 is a defining one for Texas. Its legislature will not meet again until early 2013, and the policies it decides upon now will have an incredible influence on the nature of its economic recovery. Texas remains at an economic crossroads.

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The Texas economy is one of the largest in the world – bigger than that of many nations. For years, Texas' energy industry and friendly business climate seemed to protect it from the economic uncertainties faced by many other sates. But now, reeling from persistent rising deficits, the strains of immigration, and a comatose housing industry, Texas is grappling with the realities of trying to survive and thrive in a world threatened by recession and even the possibility of a depression.

A few good policies and a little bit of luck have allowed Texas' economy to fare slightly better than the country as a whole, but the recession has made it clear that Texas cannot expect an easy or quick recovery.

Lots of Texan policy makers still believe they play by different rules because of the State's friendly business climate and rapidly growing population. They're wrong. Texas has no inherent advantages compared to other states and the nation as a whole. In fact, many of the things that set the Texas economy apart pose their own challenges, and do not offer an easy path for climbing out of the recession.

The reality of the situation – made glaringly apparent in the latest Texas legislative session -- is that Texas faces a much more unique, fragile recovery than economic forecasts indicate. Three of the largest indicators of economic growth -- the labor market, housing industry and automotive industry – have each tried to achieve recovery in singular ways.

Trying to understand the special economic patterns in Texas involves a long, hard look at history, policy and political debate in the Lone Star State.

"Why I can't buy my dream house?"

Poor decisions made by lenders and borrowers, and an industry that had forgotten why it needed safeguards, led to millions of risky home loans all around the country.

In 2006 a schoolteacher walked into Houston-based mortgage lender Steve Kyles' office. She wanted to buy a house, not just any house, but her dream home. The only problem was that she didn't qualify for the loan that she needed.

Kyles told her that the payments were going to be tough, that the reason she didn't qualify wasn't anything personal but a decision based on her income and the amount of her budget she would have to devote just to making her mortgage payment.

Not willing to take no for an answer, she kept calling different lenders trying to anyone who could get her into that home. Two years later she called Kyles because she was in foreclosure, and was finally ready to listen.

Home lending set the stage for the national financial crisis and following recession, beginning in 2008.

For years, lenders and investment firms maintained a brisk business issuing home equity loans and fashioning them into investments known as mortgage backed securities. Home loans were issued in large volumes to satisfy Wall Street's insatiable appetite for these investments, in many cases to people who could barely afford their monthly mortgage payment. Mortgage backed securities fueled the housing industry for years because investors assumed that the interest earned from home loans would be as profitable as the stock market.

Because banks were selling the mortgages they issued, they had less of an incentive to make sure the people who qualified for their loans had the means to pay them off. This, combined with buyers who wanted to buy houses they couldn't afford, led to a system with few checks and balances.

In the middle of the lenders and homebuyers were mortgage originators, the people whose job it is to work with homebuyers to find loans their finances can handle.

Mortgage originators work on commission, which worked to the advantage of investment firms looking to profit off mortgage backed securities.

"If a bank says 'I've got a brand new product, it is a 100% financing, no income-verified home mortgage and all the client needs to have is a 720 credit score' and you have client who says 'hey I can't verify my income but I want to buy a $200,000 house' what would you say?" asked Kyles.

In Texas, Kyles found his industry inundated with a gold rush mentality by consumers all too willing to risk their financial futures by purchasing homes they could not afford.

Mortgage backed securities banked on the hope that home values in America would continue to soar. But when borrowers started to default on their loans in large numbers, many of the nation's largest banks became insolvent.

"I tended to see two things, borrowers would push back if I didn't tell them what they wanted to hear, and they would go find a lender who would do the loan they wanted," says Kyles.

With such lax requirements, lenders found their industry shifting from advising potential homebuyers based on their finances to simply verifying that their loan applications were not fraudulent. "If I didn't do the loan they'd go to two other originators," said Kyles, "so if I didn't feel like there was any fraud, and I'd done due diligence on my end, then absolutely I would close that loan."

When banks loosened their lending rules, originators adapted to the new way of doing things. In the past, lenders were careful not too lend too much to risky borrowers, but when they switched from keeping the loans they wrote on their books to selling them to investors, the industry started down the path which would eventually lead to a lending crisis.

Such lending practices were rampant in Texas before the crisis, and Texas consistently ranked among the top ten states with the most delinquent mortgage payments.

How Texas dodged a bullet

Texas, though, was somewhat fortunate not to have a property bubble on the same scale as other states like California, Florida and Nevada. Over the last 20 years home values across the country rose much faster than the rate of inflation, providing homeowners with an extra source of income if they refinanced their original mortgage. In Texas, home values rose at a much lower pace, sometimes made home equity loans less enticing.

In Texas, “over the last few years we saw increases in values. . . constant with the rate of inflation,” says Beth Wolf, owner of Beth Wolf Realtors in Houston. She attributes Texas' slower rise in property values to lessons learned in the early 1980's, when Texas did face a collapse in home values on the same scale as the states hardest hit by the 2008 recession.

“At one point back in the '80s we did have double digit increases in values but I think because recently it's been more aligned with growth, we didn't experience very large increases,” says Wolf.

Common sense public policies also helped Texas avoid the worst of the housing prices bubble. In Texas, homeowners can only borrow from the value of their homes once they have more than 20% equity, preventing them from pulling out all of the equity in their homes.

"2003 through 2007 were the years you could buy a house for nothing down, and see that home appreciate in value 2-4% a year," says Kyles. "What happened was it takes a good bit of time to get 20% equity so most people were not able to pull that equity out before the recession happened."

Meanwhile, according to the Texas State Comptroller's office, in February 2011 the Texas foreclosure rate was one in every 883 mortgages. This is significantly lower than Nevada's one in 88, California's one in 223, and Florida's is one in 472.

Despite larger than average numbers of mortgages with delinquent payments, Texans' inability to over borrow against the value of their homes resulted in fewer foreclosures when mortgage interest rates started to rise. With that said, the smaller number of foreclosures didn't make Texas immune to the economic downturn.

How the housing market slump affects homebuyers

The 2008 financial crisis proved once and for all that the home lending industry had to change. Not only were mortgage backed securities bad investments, but the spectacular decline in their values proved what many thought was common sense: it is a terrible idea to offer people loans that they cannot afford to pay back.

The lending market reacted by making loans more difficult to attain, and by only approving the least risky borrowers. Now, verified income in the form of two years of tax returns as well as a 20% down payment are standard before any loan application will be processed.

"Loans are going to be more expensive for borrowers and that's just all there is to it," Kyles explains. Requiring borrowers to verify their income and make a down payment means that Texas is seeing fewer delinquent mortgage payments because fewer people can qualify for the loans that were common before the recession.

While large out of state banks bore the initial losses of these investments, all of the industries in Texas that relied upon the housing boom fueled by mortgage backed securities have seen their business dwindle. The big banks were able to fix their balance sheets thanks to the Troubled Assets Relief Program, but entire industries accustomed to a booming housing market find themselves without any option but to wait until the economy recovers.

Home lending in Texas remains sluggish – home sales are down 12% from 2010 -- because new lending standards come at the expense of consumers. The easy credit at the heart of the recession has been replaced by more cautious lending, and prospective homeowners are expected to not only make higher down payments but also conform to an inflexible financial profile.

The problem now is that borrowing is difficult even for creditworthy loan applicants. Recognizing that reckless loans nearly put them out of business, lenders have moved the pendulum from too lax to too strict, and borrowers in Texas are no exception to this national trend.

The housing industry for sellers and builders

The construction industry reflects the uncertainty in the lending market. Even with fewer foreclosures than most other states, there is little demand for new buildings. Today, there are over 150,000 less construction jobs in Texas than there were in 2007.

Simply put: Building has slowed down, there are too many unsold homes and there are fewer housing construction jobs.

"Our inventory is still in the range of a buyer's market instead of a seller's," says Wolf.

According to the most recent Texas Realtors Quarterly Housing report, Texas has nearly 8 months of housing inventory waiting to be sold. In order for supply to match with demand, the amount of housing inventory generally needs to be between 5 and 6 months.

Even worse, more houses are sitting on the sidelines of the housing market until there are more signs of a recovery. "I think people have been cautious about moving up (to larger, newer homes) and many people who might have put their house on the market chose not to based on concerns that buyers would be unable to afford financing," says Kyles.

The majority of the foreclosures he sees in Houston tend to happen on entry-level homes, or homes worth less than $175,000. Many of the unsold houses in Texas are less expensive and not in high demand by the people with the means to borrow in today's lending climate.

With such a large stock of unsold homes, the housing industry is challenging the conventional wisdom of how a recovery should work. While politicians and pundits have already declared an end to the recession, or the beginning of a recovery, the housing industry in Texas is preparing for a long downturn.

Barry Garth, owner of Garth Construction in Austin, estimates that his business, and the industry as a whole, will take much longer to recover than even the most pessimistic estimates. "During the recession in the 80s we did not really get back to full speed again until the early 90s, it was almost a decade," he says, "that's what we're looking at here, a 10 year period of adjustment."

The Texas Workforce Commission is forecasting a 30% increase in new construction jobs between now and 2016, but some builders disagree, saying they do not expect to see any room in the market for new houses in the near future.

According to Garth, "the builders right now are being very careful not to over build because we've had to compete with foreclosures and short sales." The Texas State Comptroller's office reported that new housing starts in March were approximately 62,000, only 25% of the amount reported in March 2007.

In addition, the credit crunch means that builders in Texas and the construction industry as a whole cannot rely on remodeling jobs to make up for the drop in new construction jobs.

"The remodeling business isn't doing well because when you have a remodeling job you either have home equity or a refinance," says Garth, but "the banks don't want to be in a second lien situation" where the claim of the original mortgage lender would take precedence if a bank extended a second mortgage to a borrower.

The silver lining for the Texas housing market is that there has been an influx of businesses and their employees to Texas, attracted by tax savings and the state's low cost of living.

Though there is no tally of business relocations between states, in the last year alone, 14 high-profile companies consolidated their operations or moved a subsidiary to Texas, including eBay and all of Hyundai's financing operations.

"It is a positive trend and in some ways increasing because businesses are consolidating," Wolf says, "so we have found we have a constant number of people relocating and that's been a good mainstay during the downturn in the general economy."

Texas has reaffirmed that businesses are attracted by the low cost of living and the tax incentives the state has to offer. The question that remains to be answered is whether or not this will be enough to make a noticeable difference in Texas' housing and employment markets, or if corporate relocations are simply a temporary respite that Texas has enjoyed at the expense of other states.

Where the recovery has already arrived

Unlike the housing market, the auto industry in Texas has embarked on a full recovery from the recession.

Like the housing market, the Texas auto industry was first vulnerable to the problems associated with subprime borrowers and the lenders that issued them loans. Then, when the credit crunch happened in 2008, budget conscious consumers and startled lenders caused car sales to plummet.

Mark Davis, general manager and part owner of Davis Chevrolet in Houston, found that his business was not immune from the same problems affecting the housing market. “When I first joined the business in '08 the credit crunch was already in full swing which really negatively affected the car business in general but especially us because we are a high volume subprime dealership” he said. “So a lot of our customers are subprime buyers and subprime financing is such a big part of our business we really took a hit.”

In 2008 and 2009, the auto industry faced uncertainty because many troubled banks, as well as industry lenders like General Motors Acceptance Corporation (GMAC), found themselves saddled with devalued car loans.

GMAC had several problems -- many of which stemmed from leasing. “There were a lot of outstanding leases and when everything went belly-up, the values they had calculated were too high and they ended up having to write off close to a billion dollars,” said Davis.

While there was a dip in car sales in Texas during the last part of 2008 through 2009, sales in 2010 rebounded nearly to the levels seen before the credit crisis. “Since the end of last year when the financing loosened up a little more, we've seen more people moving to replace their vehicles,” says Davis.

More lenders have entered the market, resulting in more credit being extended to prospective car buyers. This is in contrast to the larger down payments, often 20% of the purchase price, required by lenders in 2008. Unlike the housing market, lending for new and used car sales has rebounded. But now, consumer confidence is rising, and people are starting to buy more expensive cars again.

Incidentally, General Motors' strategy has been to do what the housing market desperately needs: scale back inventory. "What happened is there has been such a huge change with General Motors," says Davis. "They're not making as many vehicles."

Even though car sales have rebounded in Texas since 2009, there are still some potential perils for car dealerships and consumers in the near future. Used cars make up a larger share of annual automotive sales than new cars. As a result, used car sales fell but did not plunge as deeply as new car sales when the recession started. But a drop in auto production means that this supply of cheaper vehicles may soon fall short of consumer demand.

According to data compiled by the Bureau of Transportation Statistics, new car sales and leases in the United States only accounted for about 30% of all vehicle sales between 1990 and 2009. But even though they make up the majority of car sales, the pre-owned portion of the auto industry is directly reliant on new car sales to flourish, as the consistent selection of lightly used cars directly depends on automakers' production policies and corporations' regular leases.

As a rule, corporate leases by rental car companies meant that there used to be plenty of used cars available. Before the credit crisis "GM was building enough cars so they could just put them into leasing service, for say 30,000 miles, and then sell those vehicles and replace them" says Davis, "but now they're leasing those cars for longer, creating a situation where there's not as many pre-owned vehicles out there."

As a result, Texas car dealers may soon find themselves with the opposite problem that home builders and owners not face: a shortage of new and used inventory which will be outstripped by demand.

For an industry that depends as much on used car sales and maintenance services as new car sales, the coming used car supply shortage represents an unavoidable problem. "Until they start building more cars the pre-owned side is going to be tough," says Davis.

But one positive effect in Texas is that car dealers are making up for at least part of the drop in car sales from a boost in the number of people choosing to maintain their vehicles, a business opportunity that dealerships, and their certified in-house mechanics, have taken advantage of.

Texas also benefited from the federally funded CARS program, more commonly known as Cash for Clunkers. CARS boosted demand right as the auto industry bottomed out by offering car buyers a tax incentive for purchasing a new car. Texas was the second largest beneficiary of the Cash for Clunkers program after

California, resulting in over 40,000 new car purchases.

The Cash for Clunkers program's success lies not only in the additional new car sales but also the kinds of customers who took part in the incentive. In a survey given to all CARS program customers, 35% indicated they would not have replaced their vehicle without the program. Another 35% percent said that they would have purchased a used vehicle if the CARS incentive had not been offered. The Cash for Clunkers program accounted for three quarters of the new car sales in Texas in 2009.

While some economists feared this program would boost short-term demand at the expense of auto sales in future years, the car sales in Texas have largely mirrored business cycle trends of previous recessions.

According to data collected by the Texas Comptroller, starting in July 2009 until the program's expiration in November 2009, car sales in Texas were near $3.5 billion. By 2010, car sales reached nearly $4.2 billion without the CARS program. By contrast, Texas automotive sales in 2008 were nearly $4.5 billion, until the financial crisis caused sales to plummet.

Many Texas cities offer little in the way of mass public transport, leaving the auto industry in a prime position to not only recover from the downturn, but also to continue to grow.

Texas' quickly growing workforce

Jobs are the backbone to any economic recovery. And in Texas, hiring is all tied to the thorny issues of immigration, a rapidly growing population and an increasingly older workforce.

Many Mexican and Central American immigrants choose to move to Texas to start lives in the United States, and they represent a steady influx of new job seekers. The political controversies swirling around them, like state and federal policies concerning the border and punishments for businesses that hire illegal immigrants, make immigration a hot button issue

Dr. Chris King is the executive director of the Ray Marshall Center for the Study of Human Resources at the University of Texas. His studies focus on the labor market, both in Texas and nationally.

"The complicated question we have to ask is if these [immigrants] are complements or substitutes for U.S. labor, says King. "So if in fact that low skill labor is a direct substitute for low skilled U.S. labor, then that's a problem because it is going to lower wages for domestic workers."

Simply put, there aren't enough jobs to go around.

While many states experience domestic migration, and other states have large groups of foreign immigrants, Texas is one of only a few states to see such a large population increase, over 20% of its population, since the 2000 census.

According to the Texas Workforce Commission, Texas needs over 15,000 jobs per month to keep up with labor force growth, assuming full employment. While Texas gained 37,000 jobs in March 2011, this was only enough to lower Texas' unemployment rate by .01%, to 8.1%.

While Texas' unemployment rate is lower than some of the states hurt worst by the recession, it is not the lowest in the nation. And the Texas economy has gained jobs: 250,000 were created between March 2010 and March 2011.

But with over one million Texans still unemployed and that 8.1% unemployment rate, it will take 13 years of job growth at current levels – about 21,000 jobs a month -- for Texas' unemployment rate to fall to the 4.9% rate seen in 2008.

Meanwhile, job growth in Texas also has to compensate for the steady stream of jobs being sent overseas. In Texas, as around the nation, jobs in the middle of the wage spectrum are increasingly outsourced or automated.

"So we are eroding the things that people do and downgrading jobs that are still left," argues King.

He is not optimistic about the prospects for job growth in the Texas economy over the short term.

“We have not seen a recession of this sort that we're living with and we're nowhere near coming back to the zero line,” he says. “The odds are that we going to get hammered with another significant recession before we ever get back to zero.”

To make matters worse for Texas job hunters, this downturn has also been characterized by the number of older workers who are delaying their retirements and working longer. People are putting off retirement or they are retiring from one job but still working in order to support themselves.

According to the U.S. Department of Labor Statistics, between 1995 and 2007 the number of older full-time workers nearly doubled, but the number working part-time rose just 19 percent. As a result, full-time employment is now the norm for older workers. This trend started long before the baby boomer generation started to hit retirement age.

“Thirty years ago if you looked at labor force participation rates, and that’s including employed and unemployed” you would see that they “were a third of the labor force, now it's flipped around completely,” says King.

Both immigration and demographic challenges will cause Texas’ unemployment rate to fall at a snails pace into the foreseeable future, even with consistent job gains.

Texas' plan for fixing its finances

Like most other states, Texas has seen the recession wreak havoc on state revenues. Even amid budget cuts, the demand for public services, from unemployment insurance to job training programs, swelled with Texas' unemployment rate.

That demand for public services is running head-on into deep state budget problems – the Texas legislature is grappling with billions of dollars in possible cuts. And the roots of the Texas budget problems are much deeper than the causes of the 2008 credit crisis.

In the early '80s, when state oil and gas revenues collapsed, Texas found one of its primary revenue sources decrease from 24% to just 8% of the state budget. "We have not really recovered from those structural deficits because we haven't modernized our revenue structure. These are 25 year old problems that we haven't addressed yet," says King.

When the Texas state legislature met in 2011, it faced a $27 billion budget shortfall. When it came time to react to the toll the downturn has taken on the state's finances, Texas and its political leadership were still operating under the idea that Texas' "exceptional" nature would be enough to fix the state economy on its own.

In January 2011, Texas lawmakers passed a budget that cut funding from nearly every state department and agency. Education spending was one of the hardest hit, losing $7 billion. Higher education cuts of $1.7 billion represent an 8% decrease from the year before. Some economists estimate that budget cuts will cost the state another 300,000 jobs.

The budget would cut funding to community colleges by $767 million over two years at a time when enrollment is setting new records. It not only cuts off financial aid to new students, but also slashes the popular need-based Texas Grants program by 41 percent.

It also calls for four community colleges - Brazosport College, Frank Phillips College, Ranger College and Odessa College - to get no state money and be shuttered, for a savings of $39 million over two years.

Obviously, one of the ways to increase the number of skilled workers is to invest in education. For Texans, this is an area where budgetary constraints are working against a quick solution.

One unwelcomed effect of the state's tighter purse strings is that Texas' residents are increasingly being priced out of the education market. Because Texas' higher education budget cuts, students will have to make up the difference with higher tuition and fees at public universities and community colleges.

Community colleges and vocation schools offer some of the most accessible programs because they aren't as selective as most universities. Open admissions at Texas community colleges in particular offer a real path to both 4-year universities and other job training opportunities for people who don't fit the standard student mold.

As community colleges close, the many Texans' options for accessible and affordable college classes will disappear. Community colleges serve low-income students in particular, as they often offer the basic college credits needed for most bachelors degrees at a fraction of the prices charged by even public universities.

Furthermore, Texas simply does not have the money to invest in education on the scale that will prepare its population for high skills and high wage jobs.

One example is that a sizeable minority of the state's population is in danger of being left behind altogether: Hispanics are the largest growing population group in Texas, but even though they make up nearly 40% of the state's population, they account for only 11% of postsecondary students.

"So Hispanics are the most sensitive group to the cost of education because they're risk averse, don't take loans out to the same degree as other populations and they don't like carrying debt. " says King.

Budget savings in the form of student loans instead of college grants means that Texas' largest growing population segment is missing its chance to be competitive in the labor market in the near future, says King. Data from the 2000 census, which is the most recent year for this category of demographic information, shows that Hispanic students borrowed at roughly 25% of the rate as students from other ethnic groups to fund their education.

In essence, Texas' proposed budget will hinder the effort to prepare its workforce for the jobs of the future, the jobs that the Texas Workforce Commission and other groups base their predictions for the state's economic recovery on.

King echoes this sentiment when considering spending perceptions and priorities in the state budget. "What I would tell them is don't cut investments, that's your long-term future, but that's exactly what they're doing."

Options for unemployed Texans

There are steps being taken to address the long-term effects of a poorly educated workforce. Job training is often mentioned as one of the most realistic solutions.

There are two main job-training strategies at work today in Texas. The first includes community colleges and vocational schools. The second is called 'sectoral job training,' the strategy of training people only for jobs in a small number of growing business sectors. It is a cross between the kinds of programs community colleges and vocation schools offer, but also with the career placement services that go beyond those offered to university students.

Most of the organizations that qualify for state and federal money are vocational schools and community colleges. And they are in danger of being cut.

But even job training isn’t a quick solution for unemployed workers. Studies show that some Texas training programs are only effective for about 24% of participants. In many cases program graduates find themselves with the skills they need to find a job in their chosen field, but then discover a lack of job opportunities.

Meanwhile, there are suggestions that people who take the training are often worse off than those who opt to simply continue job hunting.

“Short-term training actually leaves people worse off because they take the training, forgo wages while they're in training, and when they finish training they don't get a better job than they would have gotten otherwise,” says Jeckobs, “so they would have been better off just going out and getting any job” to support themselves.

The problem that job hunters are noticing is that not all jobs require training, but job-training programs exist for nearly every profession. Sectoral job training programs like those run by Capitol IDEA in Austin and Project Quest in San Antonio often ignore certain industries altogether in order to get the most out of their budgets.

“So there are lots of jobs in hotels right now but we don't sponsor any kind of training for those,” says Steve Jeckobs, executive director of Capitol IDEA.

But Texas’ job training experiences also show that simply paying for classes and completing a certificate program will not always be enough to help people find jobs.

Bert Vasut, a dentist in North Austin, says that the large cost of some vocational programs defeats the purpose for applicants in his field. Vocational schools in particular often advertise how they can train students for careers as dental assistants, promising middle class wages in a growing industry.

“I think a lot of these schools are 6 or 8 thousand but you’re looking at an entry level job when you get out” he says. “Let’s say you graduated from one of those vocational programs and had your dental assistant credentials, the salary you would realistically expect is only really going to help you keep your nose above the water.”

In contrast, a sectoral job training program like Capital IDEA was founded with the hope that a more nuanced and detailed strategy of long term training, work credentials, resume services and job search support would be more effective in helping people find jobs after completing their training.

“We have an 84 percent success rate with it,” says Jeckobs, adding that programs which do not focus on job placement leave their students with a significantly lower chance of landing a job upon completing their programs.

For job seekers, programs like Capital IDEA offer a way to sidestep the common problem facing many job training graduates -- the inability to find a job even with their new credentials.

Sectoral job training programs in Texas also differ from many vocational schools because of their focus on the types of jobs that participants can get.

“We sponsor people for targeted careers,” says Jeckobs, “and we do not target any careers that are less than 17 dollars an hour plus benefits and a career path.”

While some job training services focus solely on qualifying students for jobs, Sectoral job trainers focus only on the jobs which will increase someone’s standard of living.

In a recent study of the long-term results of the Capital IDEA program, the Ray Marshall Center found that graduates of Capital IDEA's training programs earn on average double the amount that a comparison group of similar workers earn.

“You don't see that in the job training world,” King said.

The challenge will be for Texas to expand these programs and make them work on a large scale. Sectoral job training programs are still in their infancy, the programs that exist are local efforts that receive little help from the state government, and none at all from the federal government.

The question which remains is whether or not innovative programs like Capital IDEA will be able to grow in a state with very little room to spare in its budget.

Why Texas is in for a long recovery

One of the larger reasons that unemployment in Texas will remain stubbornly high is that the state economy has largely adapted to a leaner, more productive workforce.

Texas Workforce Commission officials point out that an economic recovery is happening, but the benefits aren't being felt across the entire Texas economy. On one hand the money economy, represented by corporate profits, stock prices and GDP, is rebounding after the credit crisis.

But while business in Texas continues to pick up, job seekers are still having a hard time finding work.

"If financial markets, production and labor markets aren't moving together, all those economic tools we've used to stimulate the economy need to be revisited," says King.

On one hand, it once appeared as though Texas' business climate could shield it from a national economic downturn. But far from being naturally able to lift itself out of an economic downturn, Texas finds itself confronted by the same tough problems the recession has brought to every other state.

Contrary to the popular perception among economists and its politicians before the 2008 financial crisis, the Texas economy is neither inherently better nor more resilient than any other part of the country. In the global economy, Texas has no particular advantage over any other state.

The year 2011 is a defining one for Texas. Its legislature will not meet again until early 2013, which will be either the recession's 5-year anniversary, or the beginning of a real economic recovery.

Texas remains at an economic crossroads.

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